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THE CHARITY "INDUSTRY" AND ITS TAX TREATMENT

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INTRODUCTION

The federal government and some provincial governments are having to deal with serious budgetary constraints. With discretionary financial resources shrinking, they are being forced to reassess the rationale for and appropriateness of their expenditures.

A government may spend directly by financing a variety of programs; it may also spend indirectly by forgoing a portion of its revenue. Expenditure programs that operate through the tax system are called "tax expenditures." One such expenditure concerns donations to charitable organizations.

The federal government permits individuals and corporations to reduce their income tax by allowing them a credit for donations to charitable organizations or by allowing them to deduct such donations from income. Thus, taxpayers and corporations may claim a portion of the billions of dollars that they give to the 71,000 charities that exist in Canada.(1)

Basing its estimate on tax data from Revenue Canada, Statistics Canada reports that, in 1993, 5.5 million taxpayers gave gifts to charities that amounted to $3.5 billion.(2) In 1992, total donations came to $3.2 billion. The Canadian Centre for Philanthropy estimates that in 1993 $8.2 billion was donated by individuals and $1.2 billion by corporations.(3)

The difference between these two estimates can be explained by the fact that some taxpayers give to charities without requiring a receipt or claiming the tax credit to which they are entitled. For every $100 donated by individuals, receipts are issued for only $80, of

(1) *The Financial Post*, 9 December 1994, p. 18.

(2) *Ibid.*

(3) Canadian Centre for Philanthropy, *A Portrait of Canada's Charities*, Toronto, 1994, Figure 8.

which only $43 is used in calculating the tax credit for charitable donations.[(4)] In total, these gifts cost Canadian taxpayers more than $800 million in lost revenue. In fact, as we shall see later, the amount came to over $870 million in 1992, and $893 million in 1993.

By exhibiting such fiscal generosity, the federal government is sacrificing revenue, even though sources of revenue are becoming scarcer. At a time when the government is reviewing all its programs, withdrawing from some of its activities and even going so far as to abandon the production and provision of some public goods and services completely, it must not allow the tax expenditure associated with charitable organizations to escape public scrutiny.

This document examines the charity sector in the budgetary context, discusses the economic factors that motivate philanthropists and examines the tax treatment of charitable donations. A series of tables is appended which provides a brief statistical portrait of the flourishing charity "industry."

PHILANTHROPY AND THE BUDGETARY CONTEXT

It is important to examine the tax treatment of charities to make sure that it is sufficiently generous, is not too expensive and matches the growing needs of the people of Canada. The challenge is all the greater since charitable organizations could well help solve the budgetary problems facing governments by compensating for harsh budget cuts. In 1993, as can be seen in Table 5 (see appendix), 60% of charities' revenue (or nearly $49 billion) came from various levels of government. This figure includes the amounts received by hospitals ($17 billion) and by educational institutions ($16.5 billion).[(5)] The Canadian Centre for Philanthropy has calculated that donations would have to rise by 5.8% for every 1% reduction in government subsidies and transfers in order for available funds to remain at their present level.

The billions of dollars in donations from corporations and individuals must be viewed as moneys invested in the community. In many respects, the public goods and services supplied by charities have become especially important or even essential, because of the financial situation of present governments.

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(4) *Ibid.*

(5) Hospitals and post-secondary educational institutions have status as charities. There are more than 4,600 health care institutions with status as registered charities, and more than 9,300 registered educational institutions.

As stressed above, because of the shortage of funds, governments are increasingly withdrawing from the provision of public services. It is quite possible that in the near future charities will be required to take the place of governments, which are trying to do more, and do it better, with less. At a time when attempts are being made to reinvent government, it should perhaps be recognized that social services could be provided much more efficiently by charitable organizations. It could be that communities and local agencies are in a better position to assess and meet these needs economically than government employees working in a capital city far removed from the people they serve.

Charitable donations have considerable multiplier effects. Charities say that, by allowing donations to be deducted from income tax, governments probably get more in return than it costs them in tax expenditures. Thus stopping the tax credit for charitable donations would probably result in losses greater than the amounts taxpayers currently receive through the tax credit. As the Canadian Society of Fund Raising Executives told the Finance Committee:

> All Canadians can and do find benefits in this arrangement. Governments benefit when charities produce programs and services that would not be offered otherwise. Canadians benefit when the community is enhanced and protected at a minimum cost. Everyone benefits when thousands of jobs are produced at a low cost within the charitable sector.(6)

The Canadian Fund Raising Executive Institute noted:

> The [charitable gift] tax credit is not a loophole. It is an incentive for Canadians to invest in the community through their government. It does not cost the government money. It saves the government money. ... Our charities ... receive 70% of their funding from governments and individual and corporate donations. Any undermining of this support at this time is inappropriate. ... The result would be devastating for many of the country's charities and, consequently, the people they serve.(7)

In its final report, which followed on the pre-budget consultations in the fall of 1994, the Committee stated, "without the generosity and commitment of the voluntary sector, even more responsibility and cost for services would fall on governments."(8) The Committee

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(6) Finance Committee, *Minutes of Proceedings and Evidence*, 24 November 1994, Issue 91, p. 59.

(7) *Ibid.*

(8) Finance Committee, *Confronting Canada's Deficit Crisis*, Ottawa, December 1994, p. 38.

accordingly asked the government to conduct an in-depth study of the tax incentives available to charitable, non-profit and cultural organizations. The Committee's request echoed the February 1994 budget, which stated that "[t]he government will continue to monitor the tax treatment of donations to registered charities to ensure that the tax system is as effective as possible in its support of the voluntary sector."(9)

The federal government reiterated this commitment in the 1996 budget: "In the coming year, the Department of Finance will examine ways of further encouraging charitable giving and charitable activities... Ways of ensuring that increased government support to charities is effectively translated into activities of direct benefit to Canadian society will be examined."(10) From this it seems clear that the federal government aims to encourage charitable donations while ensuring that society as a whole benefits from the associated tax relief.

ECONOMIC REASONS FOR PHILANTHROPY

Contrary to what many think, people are not concerned solely about their own economic welfare; in fact, to maximize their level of utility (i.e. their economic welfare), they also take the welfare of their fellow citizens into account. Just as they are prepared to spend money to feed their children, they are also prepared to make sacrifices to provide for those who are less well off. Because they feel it is important to have access to culture and literature, for example, they will give money to museums, libraries or literacy organizations.

Most people are concerned about the economic welfare of others. An altruistic person will give to others if the reduction in his or her wealth is at least offset by the satisfaction of sharing. Accordingly, a gift does not reduce the level of utility, since improving the lot of others will increase the general level of economic welfare. The richer a person is, in relative terms, the more he or she may be prepared to give something up in order to meet other people's needs. In fact, the dollar that a wealthy individual gives away has less marginal value to that person than it has when made available to those who are less well off.

The income tax system influences altruistic behaviour as follows: the tax credit for charitable donations is designed to encourage giving. The donor is paying less of the

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(9) Department of Finance, *Tax Measures: Supplementary Information*, 1994-1995 Budget, 22 February 1994, p. 12.

(10) Department of Finance, *Budget Plan,* 1996-97 Budget, 6 March 1996, p. 70.

contribution, since all taxpayers are forced to pay part of it. A resident of Ontario who gives $100 to a charity receives a federal credit of $17 and a provincial credit of $9.36 (or $17 multiplied by 0.58). The credits also reduce the federal and provincial surtaxes payable.

For corporations, creating close links with a charity enhances their corporate image, because they are perceived as having a social conscience. The gifts made by corporations, however, generally owe more to marketing than to altruism. This explains the sometimes more favourable tax treatment they receive with respect to gifts to charity. In fact, some judgments have held that, because such gifts may be made for business reasons, they may be deducted from business income, regardless of the generally applicable limits. (For more information, see the section entitled Tax Treatment of Donations made by Corporations.)

TAX TREATMENT OF CHARITABLE DONATIONS

A. Brief Historical Overview

Charitable donations have been taken into account in computing taxable income since income tax was first introduced in Canada in 1917. In 1950, because there was concern that some organizations receiving charitable donations might not be devoting an adequate share of such donations to charitable activities, the federal government introduced a number of tax rules. In 1966, charities were asked to file returns on their activities and to register with the Minister of National Revenue so that the receipts they issued could be checked.

Despite the 1971 tax reform, the federal government did not propose new legislation on charities until a Green Paper came out with the budget of 23 June 1975. On 25 May 1976, several new provisions governing charities were announced, to come into effect on 1 January 1977 (section 149.1 of the *Income Tax Act*). Charities were required to spend at least a minimum amount on their charitable activities and to file public information returns, while the concepts of qualified investments, private foundations, public foundations and charitable organizations were introduced.

In June 1987, following the publication in 1983 of a working paper by the Minister of Finance and the 1987 White Paper on Tax Reform the government introduced new provisions governing the tax treatment of charitable donations. Prior to 1988, a taxpayer deducted from income an amount equal to his or her charitable donation. All taxpayers were entitled to a deduction of $100 without filing receipts, whether or not they had made donations to a registered charity. With the introduction of the new provisions, the government replaced the deduction with a two-tier non-refundable federal tax credit. A federal tax credit of 17% was made available on the first $250 and a credit of 29% for any donations exceeding that amount; the taxpayer can deduct these tax credits from the tax payable. Thus, since 1988 the tax system has treated charitable donations differently by making the value of the credit dependent on the amount of the donations rather than a percentage of the donor's income.

In the budget of February 1994, the government made the tax treatment of charitable donations more generous. To encourage people to make charitable donations, it reduced to $200 (from $250), the point at which the 29% tax credit first applies, thereby slightly increasing the tax assistance for charitable donations. According to the Department of Finance, the credit will cost $15 million more per year in forgone income tax.

In the 1996 budget, the government announced a series of measures affecting the tax treatment of charitable donations. The annual ceiling on eligible donations has gone from 20% of net income to 50%, or 100% in the case of bequests. Where appreciated capital property is donated, the 50% ceiling has been further increased by 50% of the resulting taxable capital gain.

B. Tax Treatment of Donations by Individuals

There is no doubt that the tax treatment of charitable donations has a significant impact on generosity. As was noted earlier, by granting a tax credit for charitable donations, the government divides part of the cost of the donation among all taxpayers and at the same time reduces the cost to the donor; however, the tax system imposes certain limits and conditions of eligibility.

1. Tax Credit for Charitable Donations

As noted above, donors are entitled to a non-refundable 17% federal tax credit on the first $200 to a registered charity and a 29% tax credit on any donations above that amount. Donations can now represent up to 50% of a taxpayer's net income; this new ceiling is designed to encourage larger donations.

For taxpayers in all provinces except Quebec, which collects its own taxes, the combined rate of the federal and provincial credit is approximately 27% on donations of less than $200 and approximately 47% on any amount claimed above this figure. Donations exceeding the ceiling of 50% of net income may be carried forward over a maximum period of five taxation years. Furthermore, either spouse may claim a tax credit for a contribution made by the other spouse. Lastly, the individual may elect not to declare contributions in the year they are made but to save them up over a period not exceeding five years in order to accumulate a larger amount and thereby maximize the tax credit.

To be eligible for the credit, donations must be made to one of the following: (1) a Canadian charity registered under the *Income Tax Act*;[11] (2) an amateur athletic association; (3) a housing corporation providing low-cost housing; (4) a Canadian municipality; (5) the United Nations or its agencies; (6) certain universities outside Canada; and (7) certain charitable organizations outside Canada.

To encourage Canadians to donate cultural property and to ensure that such property and works of art remain in Canada, the Act provides for more generous tax treatment for these. First, when cultural property is given to institutions recognized by the *Cultural Property Export and Import Act*, the donors are entitled to a tax credit based on fair market value (established by the Canadian Cultural Property Export Review Board (section 118.1(10) of that Act); they do not have to add the deemed capital gain to their income. Second, these donations are not subject to the 50% of net income limit, and may be carried forward over the following five years if the whole tax credit is not used during the year of donation. In order to qualify, gifts of art must be made to registered Canadian institutions in the arts. It is not necessary to be a charitable organization or a Crown agent to qualify as an institution designated by the Canadian Cultural Property Export Review Board.

2. Donations of Appreciated Property

Because of the tax on capital gains, taxpayers who under the old system donated appreciated property (land or buildings, for example) to a charity sometimes found themselves in a situation where they were unable to claim tax credits for the whole amount of the taxable capital gain (capital gains are 75% taxable). This meant that it was better for taxpayers to limit the amount they donated in the form of property, in order to minimize their tax burden and the problem of cashflow as far as possible. This state of affairs was not beneficial for charitable organizations.

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(11) The section entitled Tax Classification of Charities and Non-Profit Organizations discusses in detail what constitutes a registered organization and the benefits it enjoys. An organization may be registered if it carries on at least one of the following activities: relief of poverty, promotion of religion, promotion of education and other activities benefiting the community.

The government has therefore increased the tax credit for donations of appreciated property to compensate for the taxable capital gain. In addition to the eligible donation ceiling of 50% of net income (net income includes the taxable 75% of any capital gain) taxpayers can now also claim 50% of the taxable capital gains resulting from the donation of appreciated property included in calculating the donor's taxable income.(12) Donors are thus entitled to a maximum charitable donation credit for 100% of the taxable capital gain (i.e. 75% of the gain). The new system eliminates the disadvantage that used to be associated with donations of appreciated capital property.

The new tax credit includes the entire amount of taxable capital gains, but the credit will not always be equal to the market value of the donation. In certain circumstances (for example, where taxable income is not high while the value of the donation is very high), taxpayers will not always be entitled to a tax credit in that year that represents the total market value of appreciated capital property.(13) Taxpayers should therefore calculate the maximum tax credit for which they are eligible and decide whether it would be preferable to spread out their claim for the donation over five years, in order to maximize their tax credit.

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(12) TC = 0.5 Y + 0.5 (0.75 KG)

where TC = maximum annual charitable tax credit
Y = Yi + 0.75 KG (net income as defined on line 236 of the income tax return)
Yi = net income excluding taxable capital gains
KG = capital gains

Thus TC = 0.5 Yi + 0.75 KG

(13) Taking as our basis the equation TC = 0.5 Yi + 0.75 KG, it follows that:
TC = 0.5 Yi + 0.75 (M - C)

where M= market value of donated property
C= original cost of donated property

Thus TC < M where Yi < 0.5 M + 1.5 C

In other words, the tax credit will be less than the market value of the donation if net income is too low in relation to the difference between market value and originating value. For example, in the case of property that had not appreciated at all (i.e. (where M = C), the tax credit would be equal to the total value of the donation if net income (Yi) is twice the value of the property (M).

It should be noted that very few taxpayers are in this situation, and that taxpayers always have the choice of adjusting how they make their donations in order to reduce their tax liability.

3. Gifts to the Crown

Where a taxpayer makes a gift to the government of Canada, to a provincial government or to one of their agents (such as a government foundation), he or she is entitled to donate up to 100% of net income. The whole of the gift is accordingly added to the sum on which the tax credit is calculated. The tax credit in a given year may not, however, exceed the total amount of tax payable. In such a case, any surplus not claimable may be carried forward over the following five taxation years, as can a credit that the individual does not wish to use immediately.

Some provinces, such as Ontario and British Columbia, have established charitable foundations acting for the Crown to which donors may make direct gifts. Donations to these foundations entitle the donor to the most favourable tax treatment. Consequently, it is in the interests of individuals wishing to donate more than 20% of their net income to make their donations to foundations rather than direct to charities.

4. Bequests to Charities

Bequests are considered as being made during the year of the donor's death. The 20% ceiling on bequests has been raised to 100%. If bequests exceed the ceiling of 100% of net income for next year, they may be carried back to the preceding year and a credit may be deducted from the tax payable for the last taxation year. Under the old system, there was a deemed disposition of all property on death (except for gifts made to a spouse or in respect of trusts created for the spouse's benefit); the value of charitable donations could be very high and easily exceed the 20% limit, thus not earning full tax credit. Consequently, in such cases, it was very much in the donor's interest simply to make the donation to a Crown foundation or to give to the registered organization during his or her lifetime (thereby maximizing the tax credit for charitable donations) rather than waiting until he or she died. With the new 100% ceiling, the government is facilitating contribution planning in situations where the value of such contributions is significantly more than income in the year of death and the preceding year.

As we saw earlier, a bequest of certified cultural property made to designated institutions located in Canada is not deemed to be a gift triggering a deemed capital gain; for that reason no limit is set on the value of such bequests.

C. Tax Treatment of Donations made by Corporations

Because governments are becoming less and less generous, charities are relying more on individuals and corporations. For corporations, such gifts offer the advantage of improving corporate image at very little cost.

As in the case of individuals, the maximum amount of charitable donations for which a corporation can receive tax credit during a year may now not exceed 50% of its taxable income. However, the rules governing tax deductions allow corporations to deduct the entire charitable donation from taxable income, rather than receiving a tax credit. In fact, when it is possible to describe the gift as being a payment made for business reasons, there is no limit on the amount the corporation may deduct from business income. The decision in *Olympia Floor & Wall Tile (Quebec) Ltd.* v. *M.N.R.* allows the full deduction if the gift is viewed as being an operating expense. Some people, like Léo-Paul Lauzon of the Université de Québec à Montréal object to this treatment and feel that nothing described as an entertainment expense, philanthropic expense or assistance of any kind should be tax-deductible for corporations.

D. Tax Classification of Charities and Non-Profit Organizations

Status as a registered charity brings two major benefits. First, it authorizes the organization to issue official receipts that enable individuals to reduce the tax payable on their income and corporations to reduce their taxable income. Second, it exempts the organization from paying income tax under Part I of the *Income Tax Act*.

To be eligible for registration, the charity must have been created for charitable purposes, must be located in Canada and may not pay out its income for the personal benefit of its members. This last condition does not prevent the organization from paying for services rendered with respect to normal operations. The conditions of eligibility provide that the organization’s activities must confer a tangible benefit on the public (for example, an organization created to cover the travel expenses of a sick child going to the United States for treatment would not be recognized as a charity because it would lack the essential element of public benefit). Nor can the clients benefiting from the activities be limited to a narrow group, for example an association in which membership is limited to certain people.

The courts have defined four major categories for charitable purposes. In order to fall into one of these categories, an organization must carry on at least one of the following activities: (1) relief of poverty (e.g. food banks and organizations that provide disadvantaged persons with clothing or furniture), (2) the promotion of religion (the organization must have an element of theistic worship in order to be recognized, and the activities must serve the common good), (3) the promotion of education (the activities must include a substantial educative aspect or be geared to the development of the mental faculties or to advancing a branch of knowledge (e.g. museums) and (4) other activities of benefit to the community, defined by the courts (e.g. environmental protection, child welfare, volunteer firefighters, the prevention of cruelty to animals, the relief of suffering associated with aging).

The Act recognizes two kinds of registered charities: charitable foundations and charitable organizations. The latter, which account for more than 90% of the 71,000 registered charities, are those that carry on their own charitable activities, have more than 50% of their directors dealing at arm's length with the other directors (they must not be related by blood, marriage, common law marriage, a business association or a close affiliation such as a business partnership or an employer-employee relationship), and receive at least 50% of their funds from donors dealing at arm's length.

Foundations, on the other hand, are charities used primarily to fund other recognized charitable activities; they may be public or private, the distinction being based on the relationship between the directors and the nature of the funding. A foundation is public if more than 50% of its directors deal at arm's length with the other directors and if at least 50% of its funds come from donors with whom it deals at arm's length. A foundation is private if 50% or more of its directors are persons not dealing at arm's length with other directors or if it receives more than 50% of its funds from a single person or from a group of people who do not deal with each other at arm's length. Private foundations may not be involved in commercial activities, while public foundations and charities may carry on only commercial activities that relate to their mandate or are directed by volunteers.

In order to protect taxpayers, to ensure that most of the funds are used for charitable purposes, to discourage inappropriate accumulation of capital, and to keep administrative expenditures to a reasonable level, the Act requires that every charitable organization spend a minimum amount; this is its disbursement quota, within the meaning assigned to that expression by section 149.1(1)(*e*) of the Act. Gifts for which no receipt has been issued are not subject to this requirement. Calculation of the quota will vary, depending on the type of charity involved. The Appendix to this paper explains how the formula applies to charitable organizations and to public and private foundations. Most organizations need to take into account only the value of the receipts issued for donations during the previous year. Expenditures that qualify in calculating the disbursement quota must be used directly for a charitable activity (including wages and purchases of materials or goods, for example, but excluding purely administrative costs such as fundraising campaigns or legal or accounting costs).

A charitable organization must devote not less than 80% of the amounts for which it has issued receipts to its charitable activities, excluding gifts received in the form of bequests, gifts subject to a stipulation that the property be held for not less than ten years and gifts received from other charities.

A public foundation must devote the total of the following items to its charitable activities: (a) the amount that would be its disbursement quota if the foundation were a charitable organization, plus (b) 80% of all moneys it receives from other registered charitable organizations, excluding any designated gifts, plus (c) a sum calculated on the basis of the average value of the portion of its property that was held during the preceding 24 months and was not directly allocated to charitable activities or administrative purposes. A private foundation calculates its disbursement quota in the same way as a public foundation except that the second factor is equal to 100% of all the amounts the private foundation has received from other registered charities.

Organizations that carry on political activities, in whole or in part, are not charities. For example, promoting the objectives of a political party, promoting a political doctrine, persuading the public to adopt a specific point of view on a major social issue or attempting to bring about changes in legislation or government policy would all prevent registration. The Act expressly prohibits any charitable organization from carrying on partisan political activities. Thus, a charity may not give financial or other support to or oppose a political party or a candidate for political office. An organization established for charitable purposes may, however, become involved in non-partisan political activities that directly contribute to the attainment of the organization's objectives, as long as it does not devote more than 10% of its resources to those activities.

An organization will be registered only if it fully satisfies other requirements of the *Income Tax Act*. For example, organizations are required to file an information return with the relevant attachments and financial statements within six months of the end of their fiscal year. A charitable organization must also keep books and records.

An organization that does not meet the requirements for registered charity status may in certain cases be eligible for registration as a non-profit organization under the *Income Tax Act*. For example, fraternal societies that provide services to the needy (such as Clubs Richelieu or Rotary Clubs), advocacy groups or athletic associations are not eligible for registration. While such organizations are not subject to most taxes, they may not issue official receipts for tax purposes.

CONCLUSION: TAX TREATMENT IN NEED OF REVIEW

The federal government is going to find it more and more difficul to make the tax system more generous to charities. The recent amendments to the *Income Tax Act* alone will cost the federal government a further $20 million. In addition to the $5.3 billion paid out to charitable organizations direct, the reduction in tax receipts resulting from the tax credit for charitable donations cost the government almost $1 billion. The millions that donor corporations are allowed to deduct must be added to this. There is no doubt that with such substantial amounts of money at stake, the slightest abuse might engender enormous costs. It is therefore necessary to ensure that the controls in place are effective.

Tax administration for charitable organizations may have to be improved by emphasizing transparency, simplicity and fairness. For example, Revenue Canada should perhaps review the measures governing revocation of registrations, commercial activities, late filing of returns, penalties for non-compliance, the validity of receipts issued and access to public information returns prepared by these organizations.

Because corporations can benefit from very generous tax treatment, the government could also perhaps review the rules that permit them to deduct donations. Léo-Paul Lauzon told the Finance Committee:

> There is a whole host of expenditures that are philanthropic in nature. ... These are expenses that corporations can deduct from their income tax. Corporations act as patrons of the art [*sic*] and to a certain extent influence society's choices along the lines that best meet their own private interests, all the while using public money. Governments must put a stop to that. It's a policy that makes no sense whatsoever. What it boils down to is corporations being entitled to spend public money at their own discretion without having to account for them [*sic*] in any way. ... [T]his is my recommendation: ... only normal operating expenses incurred by a company for the purpose of raising revenues should be tax deductible.(14)

Because the tax advantages that flow from gifts made to Crown foundations are particularly generous, it might be in the interest of taxation authorities to review the role of this treatment, and the rationale for it. By giving to a Crown foundation rather than to another registered organization, individuals are able to exceed the 50% limit and substantially reduce their tax, which results in the loss of substantial amounts of public revenue.

Lastly, though increasing numbers of charities are asking Canadians for donations, there are limits to the amounts that taxpayers can give. In fact, the number of organizations is probably increasing at a faster rate than the total moneys given to charity in Canada. Each organization is thus receiving an ever smaller piece of the pie as the number of competing organizations grows. Revenue Canada could perhaps look at its criteria for assessing the legitimacy of the charitable activities of the organizations in question; for example, should Greenpeace and the Alliance Québec foundation be able to issue receipts for tax purposes when their activities are often political?

The only way to free up further financial resources at no cost to the federal government is to limit the number of charities by examining the legitimacy of their activities more closely and revoking their registration more quickly, where this is necessary.

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APPENDIX

STATISTICAL OVERVIEW

Table 1
GIFTS TO CHARITY AND GIFTS TO GOVERNMENTS (1993)

	Gifts to Charity		Gifts to Governments	
Total Revenue	**Number of Taxpayers**	**Tax Credit (10^3)**	**Number of donors**	**Tax Credit (10^3)**
less than 10,000	162,360	9,392	80	1
10,000 à 15,000	465,530	43,702	1,050	662
15,000 à 20,000	471,020	56,869	540	81
20,000 à 25,000	489,740	63,012	960	394
25,000 à 30,000	507,020	65,376	970	229
30,000 à 35,000	475,340	69,118	810	501
35,000 à 40,000	444,440	61,197	680	46
40,000 à 45,000	386,850	54,126	350	942
45,000 à 50,000	329,650	49,689	410	372
50,000 à 60,000	524,930	88,769	1,090	1,046
60,000 à 70,000	309,780	62,178	1,030	4,858
70,000 à 80,000	157,990	38,175	390	1,799
80,000 à 90,000	88,850	26,480	250	487
90,000 à 100,000	59,170	20,792	230	1,477
100,000 à 150,000	115,360	54,414	490	1,744
150,000 à 250,000	57,640	46,734	330	4,820
250,000 and more	32,920	83,093	310	29,723
TOTAL	**5,078,810**	**893,191**	**9,960**	**49,213**

Source: Revenue Canada, *Taxation Statistics, 1993*. Ottawa, 1995, Table 2.

Table 2

Charitable Organizations Classified by Revenue Canada

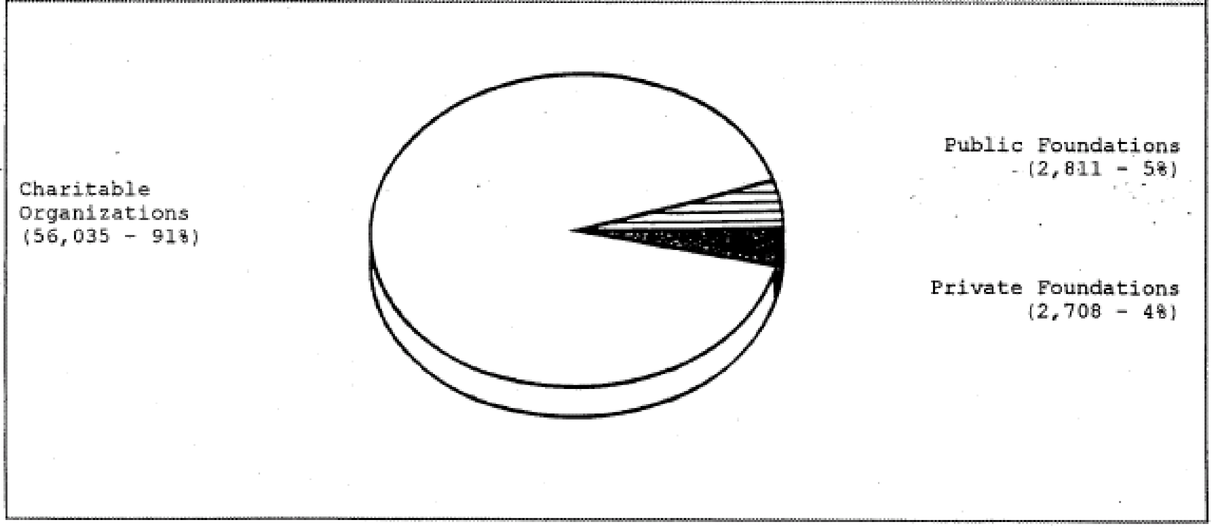
Sector/Category	Category Code	Number in Category	Number in Sector	Percent of Sector	Percent of All Charities
Welfare			**9,635**		**15.5**
Care other than treatment	1	2,541		26.4	4.1
Disaster funds	2	26		0.3	0.0
Welfare charitable corporations	3	1,182		12.3	1.9
Welfare charitable trusts	5	636		6.6	1.0
Welfare organizations. n.e.c.	9	5,250		54.5	8.5
Health			**4,602**		**7.6**
Hospitals	10	1,092		23.7	1.8
Health services other than	11	2,165		47.0	3.5
hospitals	13	660		14.3	1.1
Health charitable corporations	15	157		3.4	0.3
Health charitable trusts	19	528		11.5	0.9
Health organizations n.e.c.			**9,360**		**15.2**
Education	20	2,286		24.4	3.7
Teaching institutions	21	2,654		28.4	4.3
Support of schools	22	2,775		29.6	4.5
Culture & arts promotion	23	584		6.2	0.9
Education charitable	25	277		3.0	0.5
corporations	29	784		3.4	1.3
Education charitable trusts			**27,886**		**45.2**
Education organizations n.e.c.	30	2,210		7.9	3.6
Religion	31	2,051		7.4	3.3
Anglican parishes	32	1,034		3.7	1.7
Baptists congregations	34	617		2.2	1.0
Lutheran congregations	36	1,317		4.7	2.1
Mennonite congregations	37	1,042		3.7	1.7
Pentecostal assemblies	38	4,797		17.2	7.8
Presbyterian congregations	39	7,146		25.6	11.6
Roman Catholic parishes &	40	403		1.4	0.7
chapels	41	309		1.1	0.5
Other denominations	42	208		0.7	0.3
Salvation Army Temples	43	149		0.5	0.2
Seventh Day Adventist	44	2,984		10.7	4.8
congregations	45	94		0.3	0.2
Synagogues	46	522		1.9	0.8
Religious charitable	47	1,738		6.2	2.8
corporations	49	1,265		4.5	2.1
United Church congregations			**8,483**		**13.7**
Religious charitable trusts	50	1,453		17.1	2.4
Convents & monasteries	51	137		1.6	0.2
Missionary organizations	52	689		8.1	1.1
Religious organizations n.e.c.	53	297		3.5	0.5
Benefits to the Community	54	290		3.4	0.5
Libraries & museums	55	82		1.0	0.1
Military units	56	2,482		29.3	4.0
Preservation of sites	57	334		3.9	0.5
Community charitable	59	2,719		32.1	4.4
corporations			**1,588**		**2.6**
Protection of animals	63	119		7.5	0.2
Community charitable trusts	65	778		49.0	1.3
Recreation, playgrounds, camps	75	638		40.2	1.0
Temperance associations	80	4		0.3	0.0
Community organizations n.e.c.	99	49		3.1	0.1
Other					
Service club charitable corporations					
Service club projects					
Employee charitable trusts					
Registered amateur athletic associations					
Misc. organizations n.e.c.					
			61,554		**100**

Notes: Percentages may not add due to rounding. Numbers reflect classifications in 1991 (See Appendix 1). n.e.c. = not elsewhere classified.

Source: Canadian Centre for Philanthropy, *A Portrait of Canada's Charities*, Toronto, 1994.

Figure 1

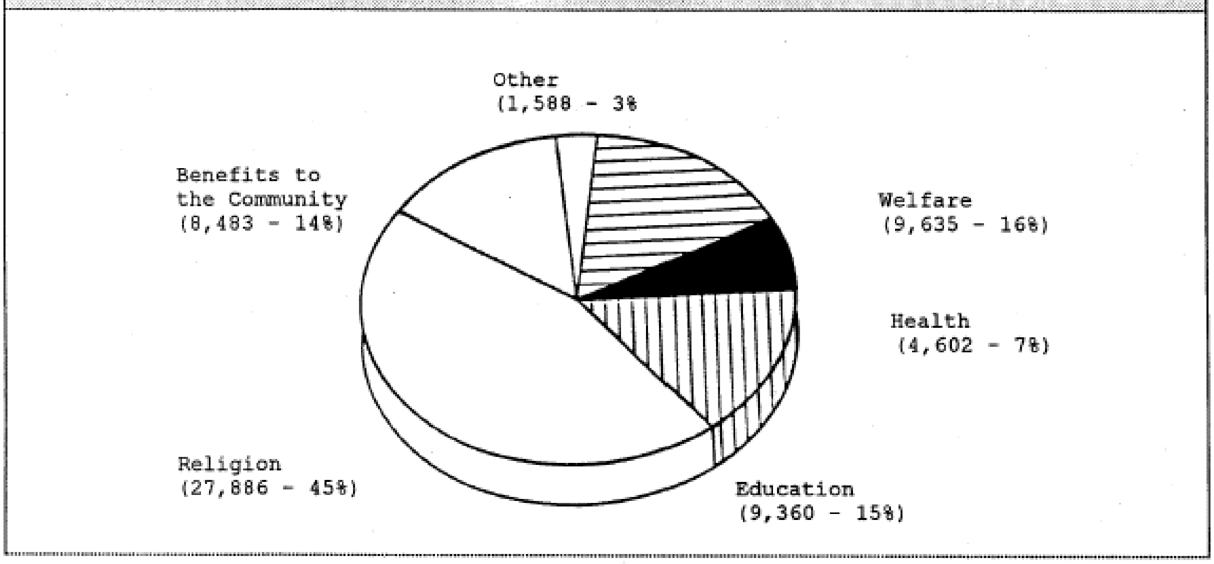
Registered Charities According To Revenue Canada Designations



Source: See Table 2.

Figure 2

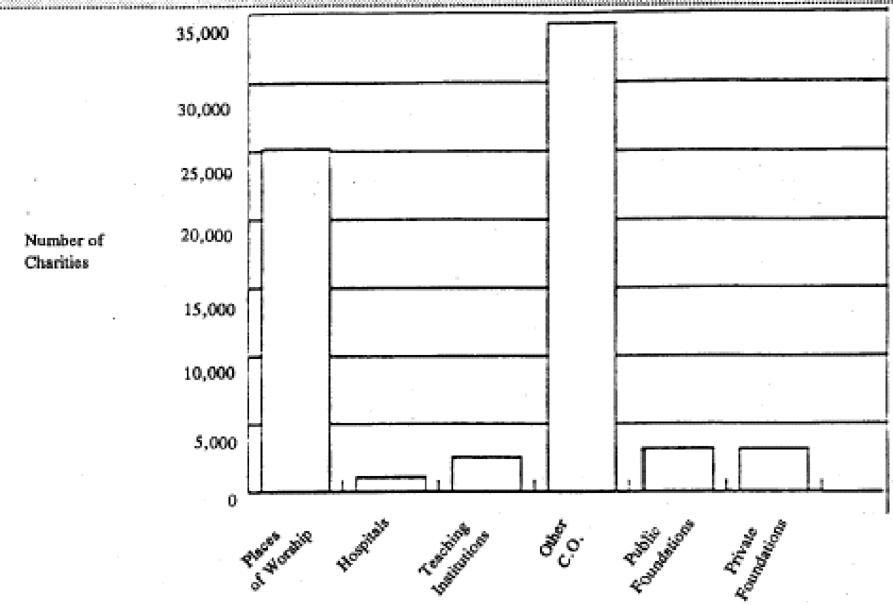
Registered Charities According to Revenue Canada Sectors



Source: See Table 2.

Figure 3

Registered Charities According to Charity Type



Source: See Table 2.

Table 3

Revenue and Expenditures of Registered Charities Compared to Other Sectors of the Economy

	In millions of dollars
<u>CCP Data (1993)</u>	
Registered Charities: Revenues	86,512
Registered Charities: Expenditures	82,428
<u>Statistics Canada (1992)</u>[a]	
Gross Domestic Product at market prices	688,541
Gross Domestic Product of British Columbia	86,571
Total Farm Cash Receipts, all crops & livestock	23,245
Total railway operating revenues (freight & passenger)	6,743
Total operating revenues for "Major Canadian airlines"	5,642
Passenger revenues from all urban and suburban transit services	1,395

[a] 1992 data from Statistics Canada (Sept. 1993. Cat. No. 11-010).

Source: See Table 2.

Table 4

Registered Charities According to Revenue Canada Sector, Category, and Designation Classifications

Sector/Category	Public Foundations	Private Foundations	Charitable Organizations	All Charities
Welfare				
Care other than treatment	82	44	2,415	2,541
Disaster funds	1	1	24	26
Welfare charitable corporations	282	708	192	1,182
Welfare charitable trusts	154	144	338	636
Welfare organizations n.e.c.	108	103	5,039	5,250
Health				
Hospitals	67	4	1,021	1,092
Health services other than hospitals	68	30	2,067	2,165
Health charitable corporations	432	118	110	660
Health charitable trusts	49	57	51	157
Health organizations n.e.c.	35	5	488	528
Education				
Teaching institutions	69	43	2,174	2,286
Support of schools	123	201	2,330	2,654
Culture & arts promotion	55	58	2,662	2,775
Education charitable corporations	237	210	137	584
Education charitable trusts	45	133	99	277
Education organizations n.e.c.	32	17	735	784
Religion				
Anglican parishes	23	4	2,183	2,210
Baptist congregations	15	6	2,030	2,051
Lutheran congregations	8	1	1,025	1,034
Mennonite congregations	2	1	614	617
Pentecostal assemblies	7	3	1,307	1,317
Presbyterian congregations	4	3	1,035	1,042
Roman Catholic parishes & chapels	52	14	4,731	4,797
Other denominations	53	62	7,031	7,146
Salvation Army Temples	2	0	401	403
Seventh Day Adventist congregations	0	2	307	309
Synagogues	2	4	202	208
Religious charitable corporations	50	43	56	149
United Church congregations	41	3	2,940	2,984
Religious charitable trusts	14	50	30	94
Convents & monasteries	2	2	518	522
Missionary organizations	28	26	1,684	1,738
Religious organizations n.e.c.	15	17	1,233	1,265
Benefits to the Community				
Libraries & museums	80	28	1,345	1,453
Military units	8	10	119	137
Preservation of sites	41	11	637	689
Community charitable corporations	115	99	83	297
Protection of animals	9	11	270	290
Community charitable corporations	22	32	28	82
Recreation, playgrounds, camps	69	33	2,380	2,482
Temperance associations	15	12	307	334
Community organizations n.e.c.	111	36	2,572	2,719
Other				
Service club charitable corporations	62	13	44	119
Service club projects	86	8	684	778
Employee charitable trusts	34	295	309	638
Registered amateur athletic associations	0	1	3	4
Misc. organizations n.e.c.	2	2	45	49
All Charities	**2,811**	**2,708**	**56,035**	**61,554**

Notes: Numbers reflect classifications in 1991 (See Appendix 1)
n.e.c. = not elsewhere classified

Table 5
Sources of Revenue

Source of Revenue	**Amount ($ millions)**	**Percentage of Total Revenues**
Government		
Federal	5,331	6.2
Provincial	41,205	47.6
Local	2,325	2.7
Subtotal	**48,861**	**56.5**
Receipted Donations		
Individuals	6,612	7.6
Corporations	1,000	1.2
Others	794	0.9
Subtotal	**8,406**	**9.7**
Unreceipted Donations	2,046	2.4
Gifts from Other Charities	2,078	2.4
Gifts in Kind[b]	540	0.6
Investment Income	3,015	3.5
Net Capital Gains	3	0.0
Net Related Business Income	644	0.7
Fees[c]	4,376	5.1
Other Income[d]	**16,543**	**19.1**
Total Revenues	**86,512**	**100**

Notes: Amounts may not add due to rounding.

[a] Receipted donations are amounts given to registered charities for which official donation receipts were issued.

[b] Estimated on the basis of information collected in survey of registered charities (see Appendix 1).

[c] Includes memberships and subscriptions.

[d] Does not include Gifts in Kind (see Appendix 1).

Source: See Table 2.

Table 6
Sources of Revenue According to Charity Type

				Charity Type			
Source of Revenue	**Places of Worship**	**Hospitals**	**Teaching Institutions**	**Other C.O.**	**Public Foundations**	**Private Foundations**	**All**
				$ Millions			
Government							
Federal	30	822	1,833	2,545	75	26	5,331
Provincial	30	16,285	14,347	8,611	1,750	182	41,205
Local	24	144	372	1,409	365	11	2,325
Subtotal	**84**	**17,251**	**16,552**	**12,564**	**2,190**	**220**	**48,861**
Receipted Donations							
Individuals	2,964	109	304	2,147	822	266	6,612
Corporations	18	36	159	361	294	131	1,000
Other	189	18	101	380	76	29	794
Subtotal	**3,171**	**163**	**565**	2,888	**1,192**	**1,192**	**8,406**
Unreceipted Donations	555	71	295	896	197	33	2,046
Gifts from Other Charities	419	239	136	1,067	176	40	2,078
Gifts in Kind[b]	22	17	84	402	15	0	540
Investment Income	342	345	616	1,067	370	274	3,015
Net Capital Gains	0	0	1	1	0	0	3
Net Related Business Income	21	137	77	372	22	14	644
Fees[c]	73	41	2,557	1,534	150	21	4,376
Other Income[d]	440	8,050	2,880	4,695	418	59	16,543
Total Revenues	**5,128**	**26,314**	**23,763**	**25,488**	**4,731**	**1,088**	**86,512**
Number of Charities	**25,177**	**1,071**	**2,516**	**34,285**	**3,148**	**3,033**	**69,230**

Notes: C.O. = Charitable Organizations. Percentages may not add to 100 due to rounding.

[a] Receipted donations are amounts given to registered charities for which official donation receipts were issued.

[b] Estimated on the basis of information collected in survey of registered charities (see Appendix 1).

[c] Includes membership and subscriptions.

[d] Does not include Gifts in Kind (see Appendix 1).

Source: See Table 2.

Table 8
Percentage of Charity Type's Revenues Obtained From Each Source

				Charity Type			
Source of Revenue	**Places of Worship**	**Hospitals**	**Teaching Institutions**	**Other C.O.**	**Public Founda-tions**	**Private Founda-tions**	**All**
				Percentages			
Government							
Federal	0.6	3.1	7.7	10.0	1.6	2.4	6.2
Provincial	0.6	61.9	60.4	33.8	37.0	16.8	47.6
Local	0.5	0.5	1.6	5.5	7.7	1.0	2.7
Subtotal	**1.6**	**65.6**	**69.7**	**49.3**	**46.3**	**20.2**	**56.5**
Receipted Donations[a]							
Individuals	57.8	0.4	1.3	8.4	17.4	24.5	7.6
Corporations	0.3	0.1	0.7	1.4	6.2	12.1	1.2
Other	3.7	0.1	0.4	1.5	1.6	2.7	0.9
Subtotal	**61.8**	**0.6**	**2.4**	**11.3**	**25.2**	**39.2**	**9.7**
Unreceipted Donations	10.8	0.3	1.2	3.5	4.2	3.0	2.4
Gifts from Other Charities	8.2	0.9	0.6	4.2	3.7	3.7	2.4
Gifts in Kind[b]	0.4	0.1	0.4	1.6	0.3	0.0	0.6
Investment Income	6.7	1.3	2.6	4.2	7.8	25.2	3.5
Net Capital Gains	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Related Business Income	0.4	0.5	0.3	7.5	0.5	1.3	0.7
Fees[c]	1.4	0.2	10.8	6.0	3.2	1.9	5.1
Other Income[d]	8.6	30.6	12.1	18.4	8.8	5.5	19.1
Total Revenues	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Notes: C.O. = Charitable Organizations. Percentages may not add to 100 due to rounding.

[a] Receipted donations are amounts given to registered charities for which official donation receipts were issued.

[b] Estimated on the basis of information collected in survey of registered charities.

[c] Includes memberships and subscriptions.

[d] Does not include Gifts in Kind'

Source: See Table 2.

Figure 4
The Flow of Private Donations: Receipted, Unreceipted, Claimed, and Unclaimed, 1993 (in Millions)

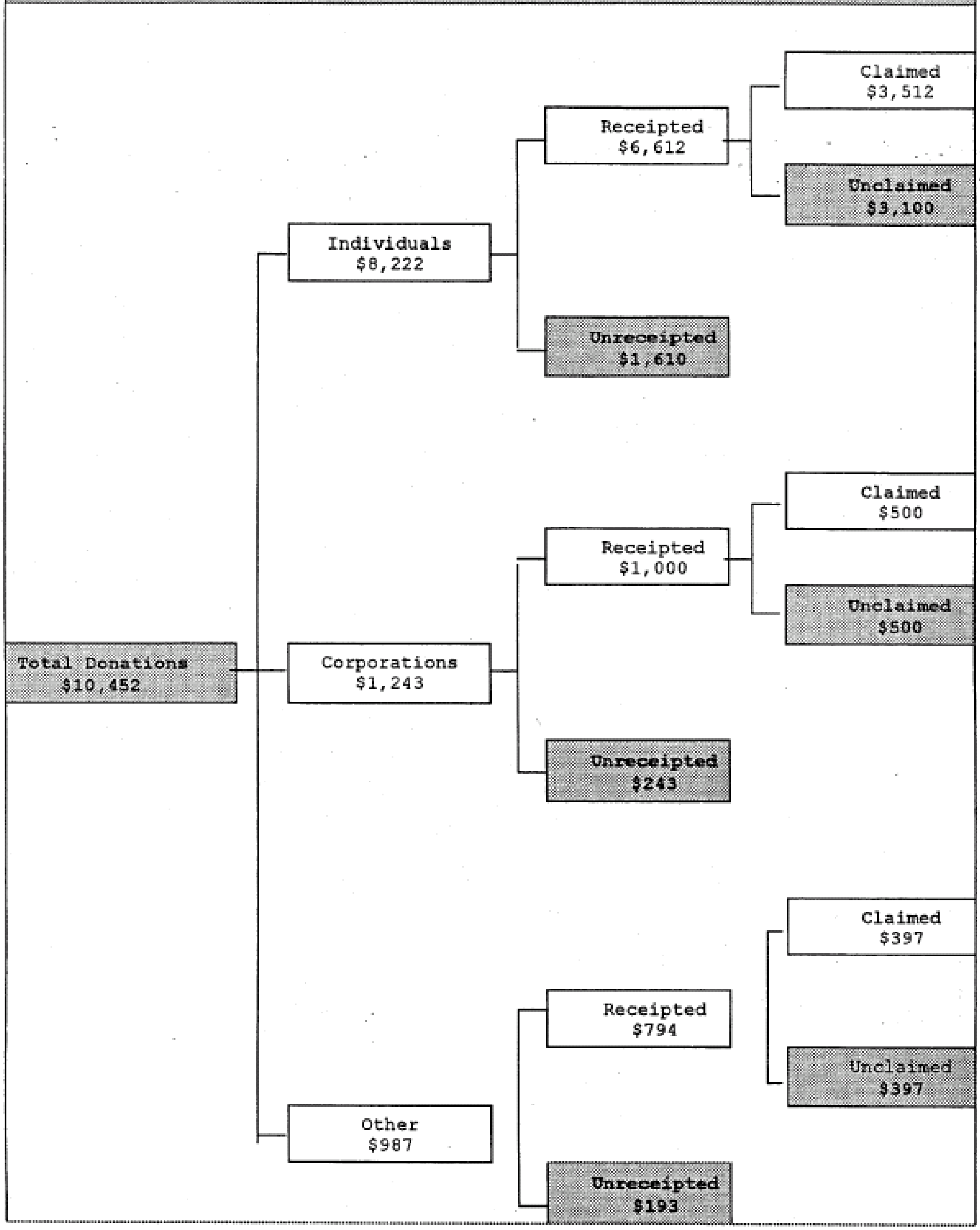


Exhibit 10.2

EXAMPLE CALCULATIONS OF DISBURSEMENT QUOTAS

DISBURSEMENT QUOTA FOR A CHARITY WHICH IS REGISTERED AS A CHARITABLE ORGANIZATION

Amount Which Must be Disbursed by Charity

Total amount for which charity issued official receipts in the immediately preceding year (excluding gifts of capital through bequest or inheritance or gifts with a ten year restriction and gifts received from other registered charities)			$ 1,000,000
Total gifts of capital received by way of bequest		$ 60,000	
Total gifts received from other registered charities		50,000	
Disbursement Quota *80% of $1,000,000*			*800,000*

DISBURSEMENT QUOTA FOR A CHARITY REGISTERED AS A PUBLIC FOUNDATION

Amount Which Must be Disbursed by Charity

Total amount for which foundation issued official receipts in the immediately preceding year (excluding gifts of capital through bequest or inheritance, gifts with a ten year restriction and gifts received from other registered charities)		$ 1,000,000	
Amount to Include in Disbursement Quota - 80% of $1,000,000			*$ 800,000*
Total gifts of capital received by way of bequest		60,000	
Amount to Include in Disbursement Quota - Nil			
Total gifts received from other registered charities		50,000	
Amount to Include in Disbursement Quota - 80% of $50,000			*40,000*
4.5% of Investments:			
Value of all investments held by the foundation		2,000,000	
Less: Amount of receipted donations	$ 1,000,000		
Amounts received from other charities	50,000	1,050,000	
		950,000	
Amount to Include in Disbursement Quota - 4.5% of $950,000			*42,750*
Disbursement Quota			$ 882,750

DISBURSEMENT QUOTA FOR A CHARITY REGISTERED AS A PRIVATE FOUNDATION

Amount Which Must be Disbursed by Charity

Total amount for which foundation issued official receipts in the immediately preceding year (excluding gifts of capital through bequest or inheritance, gifts with a ten year restriction and gifts received from other registered charities)		$ 1,000,000	
Amount to Include in Disbursement Quota - 80% of $1,000,000			*$ 800,000*
Total gifts of capital received by way of bequest		60,000	
Amount to Include in Disbursement Quota - Nil			
Total gifts received from other registered charities		50,000	
Amount to Include in Disbursement Quota - 100% of $50,000			*50,000*
4.5% of Investments:			
Value of all investments held by the foundation		2,000,000	
Less: Amount of receipted donations	$ 1,000,000		
Amounts received from other charities	50,000	1,050,000	
		950,000	
Amount to Include in Disbursement Quota - 4.5% of $950,000			*42,750*
Disbursement Quota			$ 892,750

A registered charity must spend a certain amount each year (its disbursement quota) on its own charitable activities directly or pay amounts out to other charities (qualified recipients such as other registered charities).

Source: Office of the Auditor General, Report, 1990, p. 284.